

**The Tax Exempt and Government Entities
Division Needs to Improve the Oversight
Process for Compliance Project
Examination Activities**

December 2000

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This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

December 13, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script, appearing to read "Margaret E. Bagge".

FROM: (for) Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - The Tax Exempt and Government Entities
Division Needs to Improve the Oversight Process for Compliance
Project Examination Activities

This report presents the results of our review on the processing of compliance project examination activities within the Tax Exempt and Government Entities (TE/GE) Division using the Exempt Organization Returns Inventory Classification System (EO-RICS). In summary, we found that, in most instances, sufficient controls existed for the TE/GE Division to effectively administer the process of identifying and selecting exempt organization returns for examination using information maintained on the EO-RICS. However, management oversight processes need to be strengthened to ensure that decisions to close cases without an examination are properly approved and documented in the case file. The TE/GE Division also needs to ensure that compliance projects are consistent with the annual work plan and approved by a manager.

Our recommendations will increase assurances that procedural controls are being followed by improving the documentation requirements and managerial review processes. TE/GE Division management agreed with each of the recommendations presented in the report. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are being sent to the Internal Revenue Service managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have any questions, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

**The Tax Exempt and Government Entities Division Needs to Improve the
Oversight Process for Compliance Project Examination Activities**

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Executive Summary

In recent years, the examination selection process for the Tax Exempt and Government Entities (TE/GE) Division¹ has been the subject of a number of news reports. Many of these reports raised questions on whether the processes used by the TE/GE Division fairly selected exempt organizations for examination.

The TE/GE Division primarily uses local and national compliance projects to identify and select cases for examination through a process that researches tax return information maintained on the Returns Inventory Classification System (RICS).² The compliance projects should be clearly justified and approved by managers in the TE/GE Division.

This audit evaluated the effectiveness of controls for identifying and selecting exempt organization returns for examination using the RICS. We further determined whether controls provided reasonable assurance that examinations were initiated only for business-related purposes, thereby protecting the rights of both exempt organizations and IRS employees.

Results

Overall, the TE/GE Division has controls in place to effectively administer the process of identifying and selecting exempt organization returns for examination when using information maintained on the RICS. Procedures had been established for:

- Developing local and national compliance projects.
- Reporting and managerial approval of compliance projects.
- Selecting exempt organization returns using information maintained on the RICS.
- Using RICS applications, controlling access to the RICS with passwords and profiles, and identifying unauthorized actions or improper transactions on the system.

The TE/GE Division also complied with most of the procedures established to monitor compliance projects and evaluate program controls. Quarterly status reports from the Key District Offices (KDO) were submitted to officials in the TE/GE Division

¹ In December 1999, the TE/GE Division replaced the Employee Plans and Exempt Organizations function.

² The RICS allows users to access information related to the filing and processing of exempt organization returns. This information is maintained in a database that is accessed through structured queries.

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headquarters office, and peer reviews were performed. In addition, managers in the local offices were able to demonstrate that they followed most of the operating procedures.

However, the TE/GE Division needs to improve compliance with its operating procedures that require justification for initiating a project and management approval for examinations. Managers should also ensure that projects are consistent with Examination strategies in the annual work plan. In addition, procedures are needed to ensure that managers in the Review and Classification function approve non-examined closures and that the reasons for these actions are documented in the case files.

Compliance Projects Should Include a Clear Justification for Initiating the Project and the Approval of Managers in the Tax Exempt and Government Entities Division

The TE/GE Division did not always comply with its procedures that require justification for initiation of and management approval for new compliance projects. Managers should also ensure that new compliance projects are consistent with Examination strategies outlined in the annual work plan. Our analysis of 14 project files from 2 KDOs showed that only 2 of the projects contained documentation of the necessary managerial approvals and only 1 included the reason for initiating the project. These conditions occurred because it was the practice of one of the KDOs to provide only oral management approval of new projects. In addition, TE/GE Division operating procedures were unclear on the need to provide a justification on the initiation documents or for ensuring that projects are consistent with strategies in the annual work plan.

The TE/GE Division can reduce the risk of examinations being initiated for other than legitimate business purposes by ensuring that projects are consistent with strategies outlined in the annual work plan. In addition, compliance project files should include the required management approvals and a clear justification for initiating the projects.

Procedures Are Needed to Require Management Approval of Decisions to Close Cases Without an Examination in the Review and Classification Function

The TE/GE Division does not have procedures that require classifiers to document the reason for closing a case without an examination. We reviewed 49 closed Examination case files that were initiated from 14 different compliance projects and found that cases closed in the Review and Classification function without an examination did not include an explanation for closing the case and were not approved by a manager. During the process of evaluating cases for examination potential, classification specialists frequently make decisions to close case files without an examination based on the lack of available resources in a particular field Examination group. However, under existing procedures, this action does not have to be documented in the case files and does not require the

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approval of managers in the Review and Classification function. The TE/GE Division can reduce the risk of improperly closing cases without examination by ensuring case actions are documented in the case files and are approved by a manager in the Review and Classification function.

Summary of Recommendations

While most of the necessary control procedures have been established and are being followed, the TE/GE Division needs to revise its procedures to require that: (1) project files include a clear justification for initiating the project, (2) the projects are related to the Examination strategies outlined in the annual work plan, and (3) the projects are approved by either the Area Manager in the Examination function or the Director, Exempt Organization Examinations. Additional procedures are needed to ensure classifiers record the reason for closing a case without an examination in the case file and to ensure these decisions are approved by a manager in the Review and Classification function.

Management's Response: IRS management agreed with the facts cited in the report and is taking the appropriate corrective action. Specifically, management will ensure that examination personnel thoroughly document the reason for the initiation or closure of compliance projects, include evidence of managerial approval and indicate that the project is consistent with the annual work plan. Management's comments are included in the body of the report where appropriate and their complete response to the draft report is included as Appendix IV.

The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities

Objective and Scope

The objective of our review was to determine if the TE/GE Division had effective controls for identifying and selecting exempt organization returns for examination.

This audit evaluated whether the Tax Exempt and Government Entities (TE/GE) Division¹ had effective controls for identifying and selecting exempt organization returns for examination when using the Returns Inventory Classification System (RICS).² We accomplished this by determining whether existing controls provided reasonable assurance that examinations were initiated only for business-related purposes.

Specifically, we:

- Evaluated controls associated with the development of compliance projects and the identification and selection of returns for examination.
- Evaluated the effectiveness of management oversight processes for compliance projects developed with RICS data.

The audit was performed at the TE/GE offices in the National Headquarters and two KDOs.

We conducted this audit at the TE/GE Division Headquarters Office, the Baltimore Key District Office (KDO),³ and the Brooklyn KDO from October 1999 to August 2000. This review was performed in accordance with *Government Auditing Standards*.

TE/GE Division management information reports from June 2000 showed that approximately 73 percent of the open examinations originated from projects using RICS data. Examinations originating from sources outside the RICS were not included in this audit.

¹ In December 1999, the TE/GE Division replaced the Employee Plans and Exempt Organizations (EP/EO) function.

² The RICS allows users to access information related to the filing and processing of exempt organization returns. This information is maintained in a database that is accessed through structured queries.

³ In May 2000, the TE/GE Division replaced the KDOs with Area Sites.

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Examinations originating from referrals and information items represented approximately 11 percent of the open examinations. The results of our audit work on these items are included in a separate Treasury Inspector General for Tax Administration report entitled, *Final Letter Report: The Tax Exempt and Government Entities Division Needs to Improve Oversight Processes for Referrals and Information Items* (dated October 2000).

The remaining 16 percent of the TE/GE Division's open examinations originated from a variety of sources that posed a very low risk of selecting exempt organizations returns for examination for reasons other than business-related purposes. For example, a tax refund claim by an exempt organization could prompt the TE/GE Division to initiate an examination. Because of the low risk, we did not evaluate the selection processes for each of these sources.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

Background

News reports have been critical of case selection processes in the TE/GE Division.

In recent years, the Examination selection process for the TE/GE Division has been the subject of a number of news reports. Many of these reports raised questions about whether the processes used by the TE/GE Division fairly selected cases for examination.

The TE/GE Division controls the process of selecting returns for examination through national and local compliance projects that are designed to focus resources on areas of greatest risk for noncompliance. Initially, market segments are researched to gather information on different types of exempt organizations. The information gathered from the different market segments is profiled to identify broad areas of potential noncompliance. In addition, the TE/GE Division considers data from prior compliance projects,

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The TE/GE Division's annual work plan establishes priorities for the Examination program.

suggestions from field agents, and information in news articles.

Exempt organization return data from the RICS are then compared to these profiles to identify potential noncompliance items and to target specific geographic areas for compliance projects.

An annual work plan is used to establish priorities for the Examination program in the TE/GE Division and to provide general guidelines for administering research activities.⁴

Once it is decided that a particular project has potential for identifying significant issues of noncompliance, a plan for the compliance project is to be prepared. Management in the TE/GE Division is to then approve the compliance project plan.

The results from profiling activities are summarized annually into a report of compliance recommendations. When local and national compliance projects are completed, the results are reported separately from the profiling activities in a project report.

After the local and national compliance projects are initiated, the TE/GE Division controls them in an automated Compliance Project Library. This Library contains files with information on the status of compliance projects as well as project file records on the selection of individual returns for examination.

Each individual return that is selected for examination is controlled on the Audit Information Management System (AIMS).⁵ The AIMS tracks the source of the examination, the location of individual exempt organization tax returns, and the status of each examination from start to completion.

⁴ Prior to Fiscal Year (FY) 1999, the former EP/EO function annual Examination strategy was reflected in a program letter. In FY 2000, the TE/GE Division annual work plan replaced the program letter.

⁵ The AIMS is a master file of cases under Examination jurisdiction.

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Peer reviews are used to monitor TE/GE's program and process effectiveness. TE/GE personnel independent of the office under review, conduct peer reviews to evaluate the performance and effectiveness of each area's program activities within the TE/GE Division. All reviews are summarized into final reports and discussed with those managers responsible for the office being reviewed for agreement to the facts.

Results

Overall, the TE/GE Division has controls in place to effectively administer the process of identifying and selecting exempt organization returns for examination when using the RICS. For example, operating procedures have been established for developing local and national compliance projects and for selecting exempt organization returns using information maintained on the RICS. Procedures have also been established for the reporting and managerial approval of these assignments. In addition, procedures exist for using RICS applications, controlling access to the RICS, and identifying unauthorized actions or improper transactions in the RICS.

Controls reasonably ensure that exempt organization returns are selected and examined solely for business-related purposes.

Based on our review of closed examinations, we concluded that controls over RICS-identified examinations were operating in a manner that provides reasonable assurance that exempt organizations were not inappropriately targeted for examination. Between January and December 1999, the TE/GE Division closed 1,210 examinations of Form 990, Form 990-T, and Form 990-EZ returns⁶ that originated from RICS compliance projects. We reviewed a random judgmental sample of 49 of these examinations that were related to 14 different compliance projects. Each of the 49 case files contained evidence on the source of the examination.

⁶ IRS Form 990, Form 990-T, and Form 990-EZ are tax returns for organizations exempt from income tax.

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For example, each case file contained evidence that the examination had been initiated from a project in the Compliance Project Library. The evidence in the case files showed that each examination:

- Met the compliance project's case selection criteria.
- Was included on the listing of exempt organizations in the Compliance Project Library file.
- Included project information that was consistent with information on the AIMS.

In addition, the TE/GE Division complied with most of the procedures for monitoring compliance projects and evaluating program controls. Area Managers in the KDOs completed quarterly reports on the status of exempt organization Examination activities and submitted them to officials in the TE/GE Division headquarters office. The TE/GE Division also performed peer reviews during FY 1999 at the Los Angeles and Baltimore Area Sites. These reviews evaluated the effectiveness of compliance program activities.

Managers demonstrated that most procedures for initiating new compliance projects were being followed.

Our review of controls in selected Exempt Organizations Examination Groups within the Baltimore and Brooklyn KDOs showed that group managers, in most instances, had complied with procedures for planning and controlling Examination inventories. For example, managers were able to demonstrate that most of the procedures for initiating new compliance projects were being followed and group managers had accounted for group inventories by conducting inventory validations in accordance with guidelines in the Internal Revenue Manual (IRM).

While the control environment is generally adequate, the TE/GE Division can enhance its system of internal controls by ensuring that:

- Project plans include the reason for initiating the project.

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- Projects are consistent with Examination priorities outlined in the annual work plan.
- Projects are approved by managers.

Additional procedures are also needed to ensure that managers in the Review and Classification function approve non-examined closures and that the reasons for these closures are documented in Examination case files.

Compliance Projects Should Include a Clear Justification for Initiating the Project and the Approval of Managers in the Tax Exempt and Government Entities Division

Most of the sampled compliance projects did not have management approval or evidence to support the reason for initiating the assignments.

The TE/GE Division did not always comply with its procedures that require a description of the issues and management approval for initiating new compliance projects. We analyzed information from the Compliance Project Library for the 14 projects associated with our case review of 49 closed examinations. Two projects originated from the Midstates KDO, while the remaining 12 projects originated from the Northeast KDO. The two project files from the Midstates KDO contained all of the necessary managerial approvals, and one of them included the reason for initiating the project. However, none of the 12 project files from the Northeast KDO had the necessary managerial approvals, and none had included the reason for initiating the project. While managers in one of the KDOs stated it was their practice to document the start and completion of projects, managers in the other KDO stated that it was their practice to provide only oral approval.

In addition, we were not able to relate the 14 projects to the Examination strategies in the annual work plan for the TE/GE Division. Procedures require managers to approve the initiation and completion of all compliance projects. While these procedures require a description of the issue, including the reasons for concern, they do

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not contain a clear requirement to justify the reasons for initiating a project or for ensuring that the project is consistent with Examination strategies outlined in the annual work plan.

In our opinion, when considering whether to approve a compliance project, managers should evaluate information in the Compliance Project Library and concur that the reason for initiating the compliance project is consistent with Examination strategies in the annual work plan for the TE/GE Division.

The TE/GE Division can reduce the risk of examinations being initiated for other than legitimate business purposes by ensuring that projects are consistent with strategies outlined in the annual work plan. In addition, compliance project files should include the required management approvals and a clear justification for initiating the projects.

Recommendations

1. The TE/GE Division should revise its operating procedures to require that compliance project files include clear justifications for initiating the projects and information relating the projects to the Examination strategies outlined in the annual work plan. These control issues should be examined during the peer reviews.
2. The TE/GE Division needs to remind its staff of the procedural requirements for obtaining approval on compliance projects from either an Area Manager or the Director, Exempt Organization Examinations.

Management's Response: The TE/GE Division will clarify its procedures to require employees to include in compliance project files a written justification for the project and information demonstrating that the project is consistent with the annual work plan. The TE/GE Division will reiterate in a memo the need to obtain approval for a compliance project from an Area Manager or the Director, Exempt Organizations

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Examination. These issues will be examined during peer reviews of compliance projects.

Procedures Are Needed to Require Management Approval of Decisions to Close Cases Without an Examination in the Review and Classification Function

The TE/GE Division does not have procedures that require classifiers to document the reasons for closing cases without an examination. Our analysis of 49 closed Examination case files that were initiated from 14 different compliance projects showed that 31 of the returns were fully examined and that 18 were closed without an examination. The 18 cases closed without an examination included 8 that were closed in the Review and Classification function. The remaining 10 cases were forwarded to the Examination Groups and were closed using procedures for processing cases without conducting the examination.

Under existing procedures, classification specialists in the Review and Classification function order returns through the AIMS. When the specialist receives a return, the status on AIMS is updated to unassigned. If the specialist determines that a particular Area Site or Field Examination Group does not have sufficient resources to perform the examination, the case will be closed without an examination.

The eight case files closed without an examination in the Review and Classification function did not include an explanation for closing the case and were not approved by a Review and Classification manager.

IRM procedures need to be revised for approving and documenting cases closed without examination.

TE/GE Division procedures do not require managerial approval in the Review and Classification function for cases closed without an examination or that the specialists record the reasons for closing cases. These control weaknesses increase the risk that cases could be closed for unjustified reasons.

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Recommendation

3. The TE/GE Division should revise its procedures to ensure that classifiers record the reason for closing a case without an examination in the case file. Procedures are also needed to ensure that first-line classification managers approve actions to close cases without an examination after the case has been objectively selected as part of a compliance project. These control issues should be included as a part of subsequent peer reviews.

Management's Response: The TE/GE Division will revise its procedures to require that classifiers record the reason for closing a case without an examination in the case file, and obtain the approval of the Classification manager before closing the case. The TE/GE Division will review compliance with these new procedures when conducting peer reviews.

Conclusion

The TE/GE Division has established operating procedures for developing local and national compliance projects and for selecting exempt organization returns using information maintained on the RICS. Procedures also exist for using RICS applications, controlling access to the RICS with passwords and profiles, and identifying unauthorized actions or improper transactions on the system. While the TE/GE Division has established most of the controls necessary to effectively administer the process of identifying and selecting returns for examination using the RICS, additional controls are needed to improve the oversight processes for the compliance project Examination activities.

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Appendix I

Detailed Objective, Scope, and Methodology

The objective of our audit was to evaluate whether the Internal Revenue Service (IRS) has effective controls for identifying and selecting exempt organization returns for examination using the Returns Inventory Classification System (RICS).¹ Controls should provide reasonable assurance that examinations were initiated only for business-related purposes, thereby protecting the rights of both exempt organizations and IRS employees. Specifically, we:

- I. Determined whether existing controls associated with the development of projects and the identification and selection of returns using the RICS were operating in a manner that provided reasonable assurance that organizations were selected only for business-related purposes.
 - A. Identified the key controls for identifying and selecting returns using the RICS by performing walk-throughs with the Exempt Organizations (EO) function personnel responsible for using the RICS system in two Key District Offices (KDO).²
 - B. Identified procedures used by revenue agents when initiating an audit identified through the RICS and the process used to initiate contacts with organizations being audited by performing walk-throughs in two KDOs.
 - C. Evaluated whether inventory validations were being performed by randomly selecting two revenue agents from three groups in each KDO.
 - D. Obtained management information system data from the EO function.
 1. Determined the volume of examinations that were identified from the RICS in comparison to other sources.
 2. Determined the volume of open and closed Examination projects, research projects, local and national sampling projects, and referral and information items between January 1, 1999, and December 31, 1999.

¹ This system allows the user access to return and filer information related to the filing and processing of exempt organization returns. This information is maintained in a relational database allowing access through programmer-written applications and the use of the most commonly used relational language: Structured Query Language.

² In May 2000, the KDOs were replaced with Area Sites.

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- E. Evaluated whether consistent criteria were used to open projects and select returns examined by reviewing a random judgmental sample of 49 closed EO examinations from a population of 1,210 examinations of Form 990, Form 990-T, and Form 990-EZ returns³ with a source code indicating that the examination was initiated from the RICS. For each case selected, we determined:
1. The type of project initiating the examination (e.g., research project, local sampling project, national sampling project, etc.).
 2. Whether objective data or baseline compliance measures existed to support the need for a project.
 3. The source of the data used to initiate the project and evaluated its reliability and accuracy.
 4. Whether the reason for noncompliance was identified and whether management had taken additional actions to reduce future non-compliance.
 5. The criteria used to develop queries for the project.
 6. Whether the classifier changed criteria developed by the Compliance Project Coordinator.
 7. Whether project criteria were consistent with the annual work plan.
 8. Whether the project contained appropriate authorizations and approvals.
 9. Whether the project contained a list of organizations meeting the criteria for the project.
 10. Whether the return under examination was consistent with the criteria for the project.
 11. Whether documentation from a referral or information item was included in the case file.
 12. Whether the organization's return was on the list of organizations (see step 9 above) selected for examination.
 13. Whether a related return of the organization was included in the examination.
- F. Analyzed the RICS audit trail information and identified marked returns that were removed from audit consideration by the systems administrator.

³ IRS Form 990, Form 990-T, and Form 990-EZ are tax returns for organizations exempt from income tax.

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- G. Reviewed the Compliance Project Library to determine whether it was properly maintained to reflect current information gathering activities and purging of taxpayer information from files and whether closed files were retained 3 years.
- II. Evaluated management oversight controls for projects developed with RICS data to determine their effectiveness.
 - A. Determined whether project objectives were accomplished through a managerial oversight process that evaluates and measures the performance of the Examination selection process using the RICS.
 - B. Determined whether the Chief, Review and Classification, conducted reviews on the effectiveness of general Examination planning and project selection.
 - C. Determined whether the Chief, Review and Classification, conducted monthly reviews of the classification function to assess process/program improvements.
 - D. Determined whether the Chief, Review and Classification, compared reports used to monitor return cycles, Examination inventory, and results against workplan statistics.

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Appendix II

Major Contributors to This Report

Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Joseph Edwards, Director

James V. Westcott, Audit Manager

Gary D. Pressley, Senior Auditor

Steven R. Bohrer, Auditor

Carolyn D. Miller, Auditor

The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities

Appendix III

Report Distribution List

Deputy Commissioner N:DC
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Office of Management Controls N:CFO:F:M
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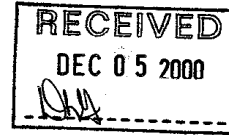
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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



NOV 30 2000

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Evelyn A. Petschek, Commissioner
Tax Exempt and Government Entities Division

SUBJECT: Response to Draft Audit Report – The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities

Thank you for the opportunity to respond to your draft report, "The Tax Exempt and Government Entities Division Needs to Improve the Oversight Process for Compliance Project Examination Activities." We appreciate your observations and recommendations. We also appreciate your finding that, overall, the Tax Exempt and Government Entities Division (TE/GE) has controls in place to effectively identify and select exempt organization returns for examination and that these controls provide reasonable assurance that we have not inappropriately selected exempt organizations for examination.

Our comments on the recommendations in the report are as follows:

IDENTITY OF RECOMMENDATIONS # 1 and # 2

1. The TE/GE Division should revise its operating procedures to require that compliance project files include clear justifications for initiating the projects and information relating the projects to the Examination strategies outlined in the annual work plan. These control issues should be examined during the peer reviews.
2. The TE/GE Division needs to remind its staff of the procedural requirements for obtaining approval on compliance projects from either an Area Manager or the Director, Exempt Organization Examinations.

ASSESSMENT OF CAUSE(S)

TE/GE operating procedures do not clearly require employees to include a written justification for proposed Exempt Organization compliance projects in the compliance project's file. Nor do the procedures clearly require employees to demonstrate in writing that the proposed project is consistent with the annual work plan. In some instances, managers did not document their approval of a compliance project in the file.

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2

CORRECTIVE ACTIONS

TE/GE will clarify its procedures to require employees to include in a compliance project's file a written justification for the project and information demonstrating the project is consistent with the annual work plan. TE/GE will reiterate in a memo the need to obtain approval for a compliance project from an Area Manager or the Director, Exempt Organizations Examination. TE/GE will examine these issues during peer reviews of compliance projects.

IMPLEMENTATION DATE

May 31, 2001

RESPONSIBLE OFFICIAL(S)

Director, Exempt Organizations Examination

CORRECTIVE ACTION(S) MONITORING PLAN

The Director, Exempt Organizations Examination will give the Director, Exempt Organizations copies of the revisions to the procedures and the memo reiterating the need to obtain approval for compliance projects.

IDENTITY OF RECOMMENDATION # 3

The TE/GE Division should revise its procedures to ensure that classifiers record the reason for closing a case without an examination in the case file. Procedures are also needed to ensure that first-line classification managers approve actions to close cases without an examination after the case has been objectively selected as part of a compliance project. These control issues should be included as a part of subsequent peer reviews.

ASSESSMENT OF CAUSES(S)

TE/GE procedures do not require classifiers in the Classification function to record in the case file the reason for closing a case without an examination or to obtain the approval of the Classification manager before closing the case.

CORRECTIVE ACTIONS

TE/GE will revise its procedures to require classifiers to record in the case file the reason for closing a case without an examination, and to obtain the approval of the Classification manager before closing the case. We will review compliance with these new procedures when we conduct peer reviews.

IMPLEMENTATION DATE

May 31, 2001

RESPONSIBLE OFFICIAL(S)

Director, Exempt Organizations Examination

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3

CORRECTIVE ACTION MONITORING PLAN

The Director, Exempt Organizations Examination will give to the Director, Exempt Organizations a copy of the revisions to the procedures.

If you have any questions about this response, please call Mike Daly at (202) 622-6174.